

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 307 - SB 1893

February 22, 2011

SUMMARY OF BILL: Reduces the state sales tax rate on food and food ingredients from 5.5 percent to 4.5 percent.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$82,911,700

Decrease Local Revenue – Net Impact - \$3,015,300

Assumptions:

- Fifty percent of tax savings will be spent on other non-food sales-taxable goods and services.
- According to the Department of Revenue, state sales tax collections from food and food ingredients in FY09-10 were approximately \$476,900,000.
- Based on historical growth rates for food sales, retail sales of food and food ingredients grow by two percent per year. Under current law, state sales tax collections from food and food ingredients for FY11-12 are estimated to be \$496,166,800 ($\$476,900,000 \times 102.0\% \times 102.0\%$).
- Each one-percent increment of the current 5.5 percent state sales tax rate levied on food and food ingredients generates approximately \$90,212,145 ($\$496,166,800 / 5.5$) of state sales tax revenue. Therefore, a recurring decrease in state sales tax revenue of \$90,212,145.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- Local governments are not held harmless from the loss of state-shared sales tax revenue.
- The decrease in local government revenue from loss of state-shared sales tax revenue will be \$4,142,993 ($\$90,212,145 \times 4.5925\%$).
- The recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services will be \$3,157,425 ($\$90,212,145 \times 50.0\% \times 7.0\%$ current state sales tax rate).
- The recurring net decrease in state revenue will be \$82,911,727 ($\$90,212,145 - \$4,142,993 - \$3,157,425$).

- The recurring increase in local option sales tax revenue as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services will be \$1,127,652 ($\$90,212,145 \times 50.0\% \times 2.5\%$ average local option sales tax rate).
- The net decrease in local government revenue for FY11-12 will be \$3,015,341 ($\$4,142,993 - \$1,127,652$).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc